

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

STATUTORY REVIEW OF THE SYSTEM FOR
REGULATING RATES AND CLASSES FOR
MARKET-DOMINANT PRODUCTS

DOCKET No. RM2017-3

**REPLY COMMENTS OF MAILERS HUB LLC AND
THE NATIONAL ASSOCIATION OF ADVERTISING DISTRIBUTORS, INC.**
(March 30, 2018)

Pursuant to Order No. 4258, Mailers Hub LLC and the National Association of Advertising Distributors, Inc. submit the following reply comments on the above-cited docket.

I. INTRODUCTION

Pursuant to provisions of the Postal Accountability and Enhancement Act ("PAEA"), on December 20, 2016, the Postal Regulatory Commission ("PRC" or "commission") issued Order No. 3673, establishing Docket No. RM2017-3, and initiating a two-step process: first, to conduct the required review and, second, to propose modifications to the ratesetting system as necessary based on the result of that review.

The commission completed the first step of its process on December 1, 2017, issuing Order No. 4257 to present its findings and conclusions. In turn, the PRC issued Order No. 4258, to begin the second step of its process, giving notice of a proposed rule to adopt

"such modifications to existing regulations or adopt such an alternative system through new regulations that the Commission deems necessary to achieve the objectives of 39 USC 3622(b)."

Order No. 4258 further stipulated that public comments on the PRC's proposed rule would be accepted through March 1, 2018, with reply comments to be submitted by March 30, 2018.

II. OBSERVATIONS ON COMMENTS RECEIVED

The major elements of the proposed rule on which most initial comments focused were Subparts D (Supplemental Rate Authority), E (Performance-Based Rate Authority), F (Non-Compensatory Classes or Products), and I (Workshare Discounts). Other comments concerned the PRC's authority under the statute to amend the ratesetting process as its proposed rule would do, the potential use of other indices than the CPI-U as a benchmark for calculating the Postal Service's rate authority, the reliability of the USPS in managing its costs and pricing, and the overall undesirability of price increases of the magnitude that could be enabled if the proposed rule were adopted.

A. Prefunding.

In our initial comments, we emphasized that the PAEA implemented a ratesetting process, and assigned it objectives, that may have seemed reasonable when drafted, but that apparently was not re-evaluated to verify its adequacy to fulfill the belatedly amended mandate to prefund \$55.8 billion in future retiree health benefits over a

brief ten-year period. Many commenters also noted the infeasibility of the prefunding mandate, with some criticizing the PRC's attention to its impact on USPS finances, but none echoed our perspective that the ratesetting process should be evaluated in its original context – as the vehicle for underwriting “normal” USPS operations (and costs) and a prefunding schedule spanning forty (not ten) years. We remain convinced that the PAEA's ratesetting mechanism *was not designed* to provide an additional \$55.8 billion over *ten* years (despite being included in the same legislation with that accelerated mandate), and we remain of the opinion that any amendments to the ratesetting process pursuant to the instant rulemaking should address its sufficiency to support “normal” USPS functions and the original pace of prefunding separately from any other steps that may be needed to resolve the Postal Service's debt.

If the commission were to agree that Objective 5 of the ratesetting process, “to ensure adequate revenues, including retained earnings, to maintain financial stability” should be evaluated in the context of what it was originally intended to do – finance regular operations of the Postal Service and enable it to pay other mandated expenses *on the timeline that was concurrently envisioned* – then the PRC would not have to amend that process to produce revenues greater than what it was initially intended to produce. As many commenters stated, and as would seem correct in view of PAEA's legislative history, the PAEA ratesetting process should not be expected (or amended) to deliver revenues to satisfy a financial demand it wasn't designed to meet.

Again, as many commenters noted, Congressional interests unrelated to the economics of postal ratemaking caused the abbreviated prefunding schedule and its consequences on USPS finances. It seems illogical to expect the PRC, and its instant ratemaking, to find a solution to a problem that, we believe, clearly is not caused by a flaw in the ratesetting mechanism but in the law that imprudently juxtaposed it with an irrational prefunding mandate.

In short, we believe that the commission's rulemaking *should not* attempt to remedy a defect that exists not in the ratesetting process but in the PAEA itself.

B. The Cap.

Nearly all commenters – the exceptions mostly being the Postal Service and its labor groups – advocated for retention of the CPI-based cap on USPS rate authority. We generally agree.

We agree with the Postal Service that the cap inhibits its pricing flexibility – that's what a cap would be expected to do – and we agree that USPS management may not be so self-destructive as to impose price increases that would further discourage the use of the mail, but we don't believe the alternative to the current cap is to simply remove it entirely. Aside from the trustworthiness of postal executives' judgement about pricing, the absence of a cap is, both in appearance and fact, the absence of any direct incentive to control costs.

However, replacing the current basis for the cap, the CPI-U, with one more relevant to the Postal Service's circumstances, such as the CPI-DS suggested by the United Postmasters and Managers of America, would be a more relevant yardstick for what “should be” the pattern of USPS cost growth. The Postal Service is more a “delivery service” than an “urban consumer” so the CPI figure used to calculate appropriate pricing changes should be that for the former, not the latter category.

We also agree that the cap directly frustrates any USPS efforts to bring the prices for non-compensatory (“underwater”) mail up to a level where they would provide 100% cost coverage for the corresponding types of mail. Here, too, simply removing the cap would risk crippling rate increases that would make cost coverage more important than retaining mail volume, but token increases would offer little benefit. A compromise, for example adding another 1% rate authority to whatever might be the applicable under the cap, might be a reasonable balance between doing nothing and a higher, more damaging additional increase. Although Periodicals ratepayers may face a difficult situation if their prices rise faster (e.g., at 1% more) than other rates, their severe cost coverage shortfall cannot be ignored, and perpetuating it (such as by avoiding above-CPI increases) would be just as unfair to other ratepayers as excessive increases would be to them.

We particularly want to refute the comments of the American Postal Workers Union (“APWU”). Historically, the union has been myopically self-serving in its greedy pursuit of raises and benefits, rejection of workplace standards for performance and efficiency, and deliberate indifference to the realities of the communications marketplace. In its comments, the APWU argued not only for the elimination of the price cap but for more than the 2% additional rate authority offered by the PRC in its proposed rule. The union also rejected “cost cutting and productivity improvements,” clearly unwilling to participate in any effort that would make its members’ work performance more efficient. Most disingenuously, the APWU claimed that mail volume patterns during and after the “exigent surcharge” showed that concerns over the impact of rate increases (“rate shock”) were just “hyperbole.” The APWU’s long-standing record of hostility toward commercial mailing companies and unrelenting resistance to any measures to restrain USPS costs and improve its operational efficiency offers a clear context in which to evaluate its comments. The union doesn’t care about mail volume or revenue, somehow believing that higher USPS costs and the upward pressure they place on postage rates will never have a negative impact, as if ratepayers didn’t have easily available *non-mail* options for their correspondence, transaction, advertising, and publications. We urge the commission to disregard their comments and recommendations accordingly.

C. Other Issues.

Commenters spoke to issues of service and efficiency as those would be factors in establishing USPS rate authority under the commission’s proposed rule. Without debating current Postal Service efficiency or service performance, or the merits of adopting the commission’s related proposed standards, we repeat our recommendation that, if those factors are retained by the PRC in a final rule, the commission conduct a separate rulemaking to establish empirical criteria to define “efficiency” and “service” so that achievement of those standards can be evaluated objectively. Achievement of “efficiency” or “service” should not be predicated on subjective perceptions.

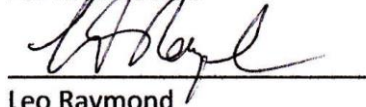
Other commenters sought additional data or pursued lines of argument about past Postal Service operational decisions or capital investments. Any past decisions and investments can be questioned with the benefit of hindsight and the knowledge of subsequent developments but, regardless, such investigations seem beyond the scope of the instant rulemaking and marginally relevant to determining what, if any, changes are needed in the PAEA ratesetting process.

III. CONCLUSION

After evaluating our earlier comments in light of those offered by the many other parties to this rulemaking, we submit these recommendations be included by the PRC in its final rule:

1. Retain the CPI cap, but replace the CPI-U with the CPI-DS as the basis for its calculation.
2. Exclude the accelerated prefunding obligation, and USPS debt related to its imposition, from any analysis of whether the current ratesetting process adequately ensures the Postal Service's financial stability and its ability to sustain its operations and make prudent capital investments.
3. Refer resolution of the PAEA's infeasible prefunding mandate, and Postal Service's unsustainable financial circumstances related to its imposition, to the attention of Congress, the author of the PAEA.
4. Take affirmative measures to ameliorate the cost coverage shortfall of non-compensatory categories but at a pace that moderates the price impact on the related categories.
5. Ensure that any incentives for "efficiency" or "service" are tied to objective criteria.
6. Keep firmly in mind that users of all types of mail have affordable alternatives to the use of hard-copy mail, and that any price increase will impact their decisions about how to send their messages. While the review mandated by the PAEA may point to the need for changes to the ratesetting process, accepting the notion that the ratesetting process must satisfy the flawed prefunding mandate through higher postage rates can prove contrary to the fundamental purpose of the PAEA: a viable Postal Service.

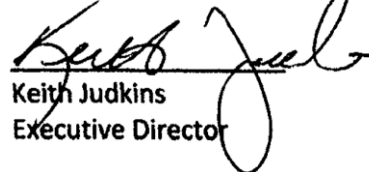
For Mailers Hub



Leo Raymond
Managing Director

Mailers Hub LLC
108 Brafferton Blvd
Stafford VA 22554-1514

For the National Association of Advertising Distributors



Keith Judkins
Executive Director

National Association of Advertising Distributors, Inc.
10309 E 95th St N
Owasso, OK 74055-6999